FIXED INCOME

RESEARCH REPORT | 6/12/19

Oil Energy
(Ticker: XXX)

Recommendation: BUY
Business Rating: 6
Security Rating: 6
Author: TresVista

(Data as of 6/11/19 unless specified)

Debt/Equity:	2.53	Debt/EBITDA (TTM):	3.50[1]	Interest Coverage Ratio:	2.32[1]
EBITDA (TTM):	$2.7B[2]	Debt/EBITDA (forward):	3.58[2]	Interest Expense:	$655M[1]
EBITDA (forward):	$2.7B[3]	Market Cap:	$3.1B	Cash/Cash Eq.:	$8M[3]
Total Debt:	$9.55B[4]	Enterprise Value:	$13.1B	Debt/EV Ratio:	0.73
		Asset Coverage:	1.48[3]	Free Cash Flow:	$-489M[2]
RSI (stock):	47.3	Stock 200 Day Moving Average:	$2.57	Dividend Yield:	NA
Insider Transactions (Dec 2018): Director Paul Smith bought 2.1 million shares, Director Jack Forman bought 2.4 million shares				Payout Ratio:	NA
OAS Spread:	652	YTM:	8.32%	Spread/Turn Leverage (TTM):	2.38

(Report based on 5.750% 12/12/2023 bond with $338 million outstanding)

WHY WE RATE XXX BONDS A BUY

Quick Note

"An investment in XXX is a play on production mix shifting from Gas to Oil, increase in oil and gas prices, and capital & operating efficiencies with abundant good quality of assets."

We rate XXX's 5.750% 12/12/2023 bond a BUY at this time. Strong industry headwinds, high debt burden, high debt leverage, and uncertainty related to servicing of debt without assets sale shows a downside risk going forward for XXX. However, despite declining energy prices the company has managed to generate cash flow from asset sales and service the debt on time. Also, the company's changed strategy of moving from Natural Gas to Oil assets is credit positive for XXX as this will add to the asset value and will improve cash flows that can be used to service debt. To conclude, XXX's future will depend on the company's ability to execute favorable asset sales of its natural gas properties, and synergies with newly acquired oil assets. The following are the key reasons why we rate the bond a BUY:

[1] Last Twelve Months ending March 2019
[2] FactSet Consensus Estimate for 2019
[3] As of Q1 2019 (3/31/19)

What we like…	What we don't like…
Shift to Oil Assets	Low Cash balance
Acquisition of WH	Significant Natural Gas production
High involvement of PE firms	Capitally-intensive Business with High CapEx needs
Significant Hedged portion in 2019 and 2020	

1. Shift to Oil: XXX's acquisition of WH looks like a great solid move and is in line with the company's strategy of shifting to oil in the product mix to 26% by end of 2019. The acquisition provides a wider asset base to back the obligations, and more earnings to service the debt. The company has also shifted CapEx to the Anton Basin, adding a sixth rig to the program, where its assets are performing exceedingly well at the moment. The Adj. EBITDAX/boe was $10.83 in 2017 when the average oil mix was ~16%. The EBITDAX/boe increased to $12.81 while the oil contribution increased to an average of ~17%. The company expects EBITDAX/boe to be at $14.80 by the end of 2019 while simultaneously achieving 26% product mix.

2. Acquisition of WH: XXX acquired WH business for a combination of ~717.4 million XXX's shares and $381.0 million cash. This transaction added new oil wells which increased oil production and enhanced the oil production mix. WH assets are high quality and is a high margin business. The management expects costs to reduce significantly due to the operational efficiency of the combined business. The management also expects the acquisition to be FCF positive at the asset level by the end of the year. This acquisition is beneficial and in line with XXX's revamped strategy to shift to oil assets against the backdrop of falling natural gas prices, thereby resulting in improved EBITDAX and FCF.

3. Maturity Wall shift: XXX refinanced ~$884.0 million of existing senior notes due in 2020 and 2021 for ~$919.0 million amount of new 8.00% Senior Notes due 2026. There is no high debt burden in the upcoming year which gives the company sufficient cushion to start generating positive FCF from its high quality oil assets.

4. Huge capex: XXX works in a capital intensive industry and the company has plans to spend around $2.2 billion in 2019. Capital spending is expected to increase in the coming years. If the capex will be funded through incremental debt, the company's credit metrics will deteriorate further. However, as per the management the oil assets will contribute to enhanced margins and FCF generations which should be sufficient to fund its high capex and avoid an increase in leverage. Assuming an oil mix of ~30% and an EBITDAX/boe of $18.0 in 2020, up from 26% and $14.8 in 2019 respectively, and a similar level of CapEx, we can expect the company to be positive FCF by 2020.

5. High PE involvement: PE investors comprise 30% of the total O/S shares which keeps the company's capital allocation, cost optimization, and shift to oil in check. Additionally, due to the nature of PE investments EBITDAX and FCF have to rise.

6. Hedging: 70% and 80% of remaining 2019 Oil and Gas production, respectively, are hedged with downside protection at average prices of $58.75 per barrel and $2.83 mcf, respectively.

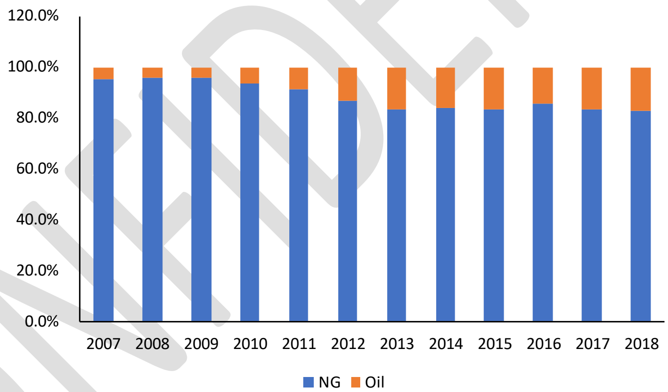
SUMMARY OF THE BUSINESS AND THE INDUSTRY

Business

Oil Energy is an independent exploration and production company engaged in the acquisition, exploration and development of properties to produce oil, natural gas and NGL from underground reservoirs. The company owns a large and geographically diverse portfolio of onshore US unconventional liquids and natural gas assets, including interests in approximately 13,200 oil and natural gas wells. The company has leading positions in the liquids-rich resource plays of the Eagle Ford Shale in South Texas, the stacked pay in the Anton Basin in Wyoming and the Anadarko Basin in northwestern Oklahoma. Oil Energy's natural gas resource plays are the Marcellus Shale in the northern Appalachian Basin in Pennsylvania and the Haynesville/Bossier Shales in northwestern Louisiana.

Oil Energy Corporation ("OIL") was founded in 1989. In 1993, the company became a public company via an initial public offering, valuing the company at $25 million.

As of December 31, 2018, OIL held an interest in approximately 13,200 gross (5,600 net) productive wells, including 10,200 properties in which the company held a working interest and 3,000 properties in which the company held an overriding or royalty interest. Of the 10,200 properties in which OIL had a working interest, the company operated 7,200 wells, 6,800 gross (3,800 net), of which were classified as productive natural gas wells and 3,400 gross (1,800 net) were classified as productive oil wells.



Natural Gas – to – Oil Production mix

In September 2018, the company sold interests in the Utica Shale operating area located in Ohio for approximately $2.0 billion to a private oil and gas company headquartered in Houston, Texas. The net proceeds were used to reduce total debt of $1.8 billion as of December 31, 2018, including the elimination of $2.6 billion in secured debt.

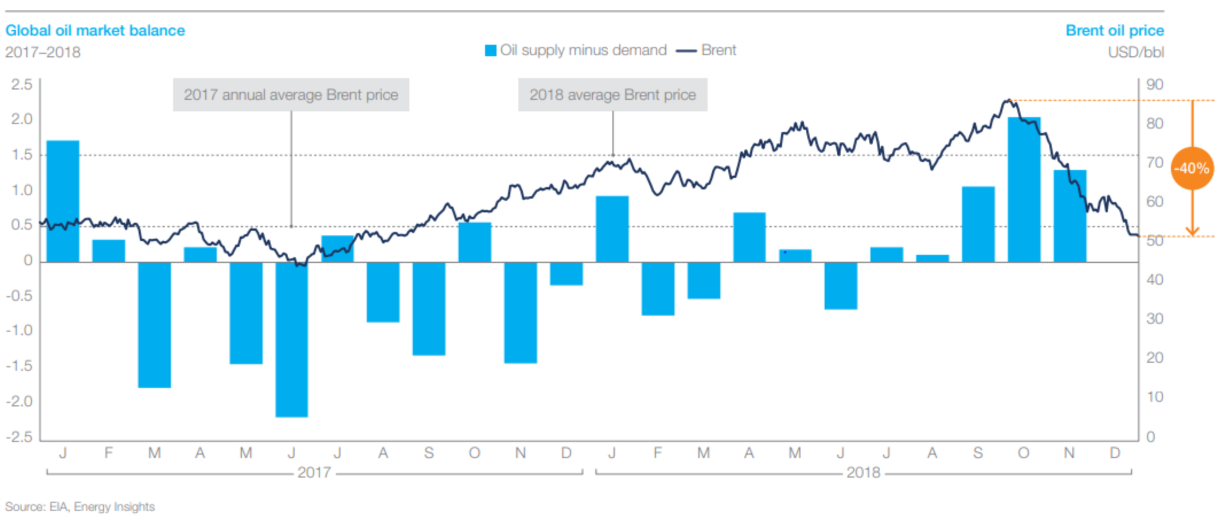
In January 2019, the company acquired WH, an oil and gas company with operations in the Eagle Ford Shale and Austin Chalk formations in southeast Texas, for approximately 717.3 million shares of common stock and $381 million in cash, and the assumption of WH's debt of $1.4 billion as of the acquisition date of February 1, 2019. The acquisition of WH expands OIL's oil growth platform and accelerates progress towards the company's strategic and financial goals of enhancing margins, achieving sustainable free cash flow generation, and reducing net debt to EBITDA ratio.

TresVista Insight: The company has a current oil-to-gas mix (as of Q1 2019) at 22%. Between 2012 to 2018 it has ranged from 13% to 18%. The management has clear-defined strategy of shifting the product mix to include more oil and achieve 26% by the end of 2019, and 30% by end of 2020. We believe that the change in strategy will put the company in a better position due to the high quality of oil assets and the significant margin contributions. The Anton Basin and the Brazos valley have significant EBITDAX/boe contribution, low cost structure and access to Gulf Coast premium pricing.

Industry/Competition

During early 2015, WTI price fell from $100.0/BBL to ~50.0/BBL and further slipped to a low of $26.14/BBL by early 2016. This collapse was majorly due to oversupply, as OPEC decided to maintain production levels, despite growth in US Shale. More recently, global oil supply has continued to build up during the second half of 2018 resulting in price decline. US and Saudi oil production reached peak growth, surpassing 11.5 and 11 MMB/d respectively and hence OPEC+ announced 1.2 MMB/d production cuts at the end of 2018.

Supply and Demand:



Mckinsey has provided the following short-term outlook in its 'Global oil supply demand outlook':

- *If demand growth stays healthy and OPEC+ maintains discipline over production levels, we see market fundamentals resulting in average prices in the USD 60.0-70.0/BBL range up until 2020*
- *After 2020, prices are likely to remain closer to USD 60.0/BBL, driven by sluggish demand growth and continued growth of shale oil in North America as operators lean towards shorter-lead projects*
- *In a scenario where the global economy slows down even more, prices could fall to the USD 50.0-55.0/BBL range if OPEC chooses not to intervene*

- *Prices could reach a high of USD 80.0-90.0/BBL in a continued supply disruption scenario if MARPOL finds the shipping industry fully unprepared, Venezuela and Iran production drops further, and reduced effective OPEC spare capacity leads to further tightening*

While any of these scenarios are equally likely to play out, we have an opinion that the oil prices are unlikely to fall significantly in the near future, owing to the following events:

- Ongoing tension between the US and Iran, and the strait of Hormuz
- OPEC+ agreed to rollover oil supply cuts by further nine months, until March 2020

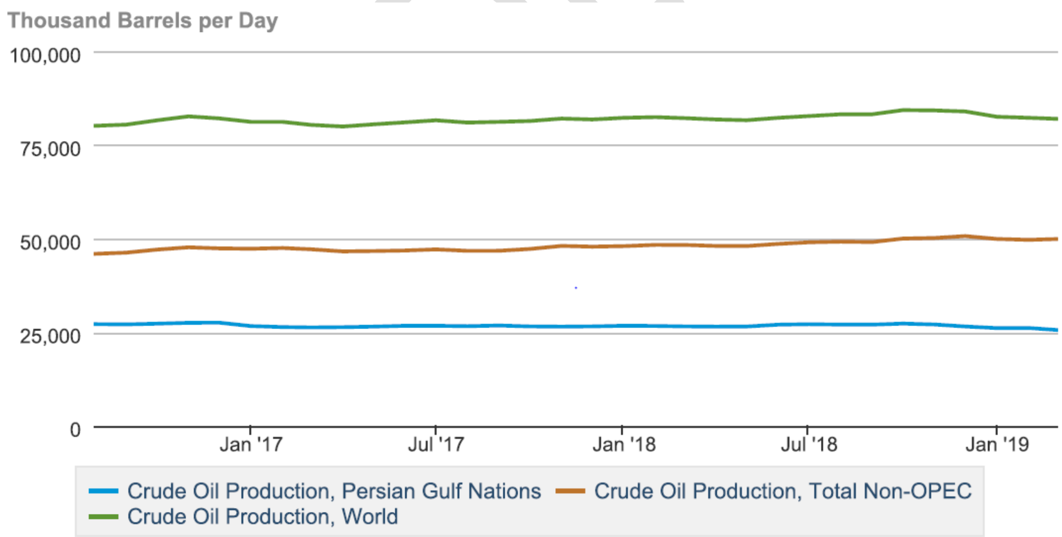
Oil and Gas Futures Price:

(Source: Bloomberg)	Spot	Q3 19	Q4 19	Q1 20	Q2 20	2019	2020	2021	2022
NYMEX WTI $/BBL	60.81	60.47	60.06	59.21	58.23	59.94	58.00	55.85	54.96
ICE BRENT $/BBL	67.51	66.70	65.80	65.09	64.42	66.51	64.12	62.21	61.39
NYMEX Henry Hub	2.45	2.46	2.71	2.64	2.49	2.62	2.60	2.59	2.60

Production:

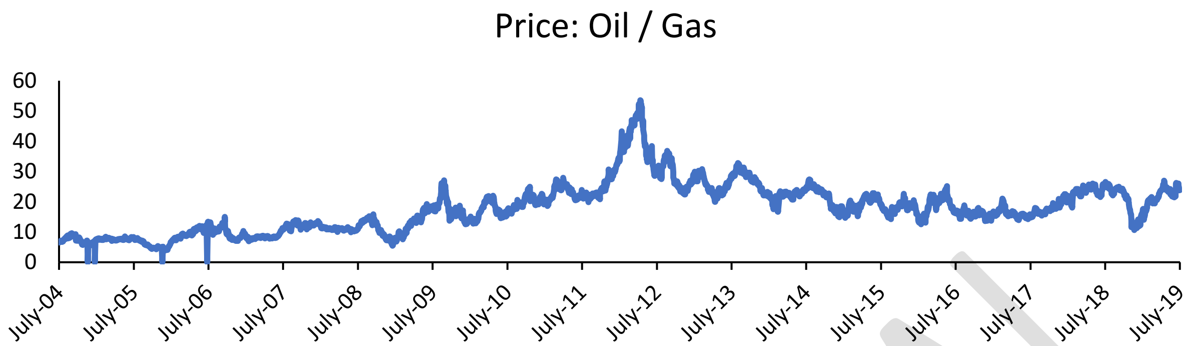
- Currently, OPEC's oil production is about half of the Non-OPEC, which has changed significantly from 1980s, when the two groups had about the same volume of production. In the short term the production rate is almost flat, with OPEC continuing to limit oil supply, and Persian Gulf nations' oil production declining from 2017 to 2019, which is captured by non-OPEC countries.

World Crude Oil Production:

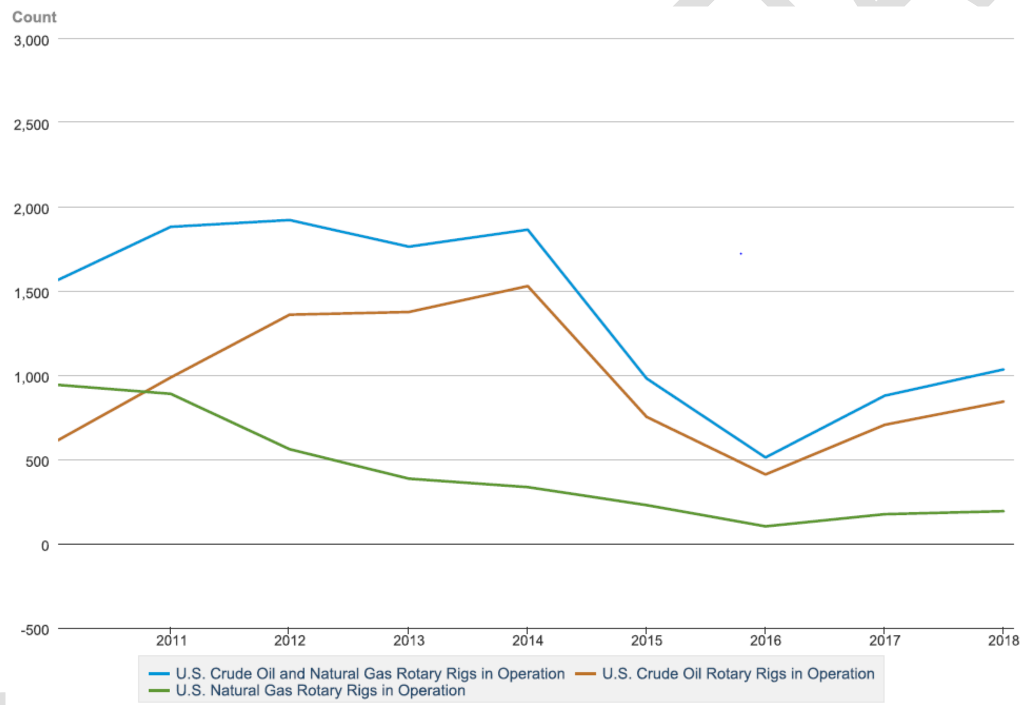


Natural Gas:

Natural Gas, provides energy approximately equivalent to 1/6th of a barrel of oil (depending upon the quality of oil). Therefore, 6.0 mcf of natural gas is considered to be equivalent to 1 Barrel of Oil Equivalent (BOE). Historically, natural gas has been selling at a lower price on a BOE basis, which has made operating in gas plays less profitable. Currently for XXX, EBITDAX per BOE for Oil is about 3 times the gas figure.



US Crude Oil and Natural Gas Drilling Activity (Short-Term):



Total Crude Oil and Natural Gas rigs count was 1,800 to 2,000 during the boom period of 2011-14. In 2015, when oil price tumbled, the total oil and gas rigs count came down to 500, and subsequently rose to 1,000 by 2018, reaching the 2000-05 level. We believe that at such a level of rig count, any substantial decline in oil price is not probable. Keeping in mind the Iran sanctions, and OPEC supply cut, we believe that the oil price will not breach $50.0/BBL on the down side.

Competitive Advantage:

XXX competes with major integrated and other independent oil and natural gas companies in all aspects of the business to explore, develop and operate properties and market the production. It has a highly efficient F&D process.

With its F&D costs lower than most of its competitors, it can strive towards cost leadership in the industry through continuous efforts of cost optimization, which will be a source of competitive advantage as it scales. Further, a low F&D cost will protect its bottom line in case of price volatility in the oil and gas markets.

While the historic YoY FCF growth has been erratic throughout the industry, Exxon has managed to maintain a positive FCF position throughout the last 10 years. FCF volatility grows as we look at smaller companies of the industry such as Anadarko, Devon Energy, EnCana, and Marathon, all of which have generated negative FCF in a majority of years in the last decade. This provides a basis to believe that if XXX can sustain a cash flow neutral position by 2020 (the year end target of the management) it can solidify its position for further growth.

TresVista Insight: We believe that even in low energy price environment the company will be able to generate positive FCF, with EBITDA showing positive signs of improvement. Even during the downturn in 2014-15 the company managed to stay EBITDA positive throughout. At the peak energy prices, the EBITDA margin was above 30%, and currently the management has shifted focus from the low margin natural gas to the high margin oil. The effects of the shift in the product mix is showing positive signs as the EBITDAX/BOE in Q1 2019 was $15.5/boe the highest in four years. The new oil assets are of high quality and are able to produce higher margins.

The Last Downturn

Between mid-2014 and the end of 2015, the price of crude oil halved, falling from $91 per barrel to $43 per barrel. In order to cope with this extreme reduction in selling price, the company undertook several initiatives to adapt its business operations to the distressed situation within the industry. OIL closed on approximately $700 million of divestitures under purchase and sale agreements in 2015. Additionally, the company planned to complete $500 million to $1 billion of further asset sales by the end of 2016. This was carried out with the intention of generating short term liquidity and reducing the complexity of the balance sheet. The company focused on improving operational leverage with a view to enhance profitability at EBITDAX level. In 2015, the company renegotiated two gathering agreements in the Haynesville and dry gas Utica areas and planned to actively pursue improving gathering and transportation costs with other midstream service providers through 2016. Turning to the cost structure, in 2015, OIL reduced production costs on a per barrel of oil equivalent basis by 10% compared to 2014. The company also reduced general and administrative costs per barrel oil equivalent by 24% in 2015, including non-cash stock-based compensation. The management planned to continue to lower these costs even further in 2016, targeting another 10% reduction in production costs and a 15% reduction in G&A costs on a BOE basis. During the downturn in 2015 the revenues dropped ~45% YoY while in 2016, the revenue dropped a further ~38% YoY. The drop is in line with the drop of the ASP of Oil and Gas which also saw a drop of ~48% and ~38% respectively in 2015. The positive side during the downturn is the management's ability of reducing cost to keep the Adjusted EBITDA margin positive at 18.7% in 2015, a drop of only 12.6% YoY, when compared to the drop in revenue during the same period. The cost cutting strategies and the operating efficiencies, combined with the shift to oil allowed the company to in turn increase the EBITDA margin by 5% in 2017 to ~23% after the downturn of 2015.

In 2015, the company targeted improvement of leverage through significant reduction in overall debt, when it faced a technical default. Between the third quarter of 2015 and year-end, the company reduced overall debt level by $2.2 billion through an exchange using second lien secured debt that also reduced cash interest expense due to redemption of convertible notes and through ongoing open market purchases. The company was able to exchange ~$3.9 billion of debt for ~2.4 billion in aggregate principal amount for a longer maturity which was at a discount against the backdrop of falling energy prices and weak macro environment.

A similar private exchange placement was issued by the company in the first quarter of 2019 for almost $883.5 million debts with maturities till 2022. The company will issue new notes at a premium with principal of $918.5 million due 2026 in exchange for the existing notes. The maturity wall before 2023 will be significantly reduced and gives the company a cushion to further reduce leverage and capitalize on its oil strategy against a stable or increasing energy environment. Under our assumptions, the company will be able to generate positive FCF and EBITDAX margin expansion to service the debts and paydown the upcoming maturities in situations of oil being less than $50/bl. We believe the company will be able to control costs and exchange the debts, as already seen in 2015.

TresVista Insight: The acquisition of WH plays an important role in the margin expansion as the WH's EBITDA per barrel of oil equivalent is one of the highest of any independent E&P operator in the United States. The company also expects to achieve cost savings of $200.0 to $280.0 million year over the first 5 years. XXX achieved $15.5/boe EBITDAX margin in Q1 2019 (highest in four years) when the Oil was at an average price of $54.8/bl whereas Natural Gas was at $2.9/cf, which compares to the EBITDAX margin of ~$10/boe in 2015 when the Oil was at an average price of $48.7/bl whereas Natural Gas was at $2.6/cf. Currently, the oil price is hovering in the $55.0-$60.0 range and we believe that the price will have a support level of $50.0. The company is also shifting the product mix to oil and has a target to end 2019 at 26% vs. 18% at the end of 2018, and projects an improvement of additional ~50% by 2020. Under the current scenario, we believe that the company will achieve a 33% Oil-to-Gas mix by 2020, vs. 26% in 2019 (management’s expectation is to cross 30% by 2020), and even if the energy price is at the current level, given a 10% annual production growth, the company is well positioned to achieve at least ~35-40% growth in EBITDAX margin (assuming we achieve ~$30 EBITDAX/boe from oil and ~$10 EBITDAX/boe from natural gas)

The company’s debt exchange also is a positive sign for our debt maturing in 2023. The potential of further margin expansions and FCF generation with significantly reduced maturity wall before 2023 allows the company enough cushion to service the debts. Even in a downturn environment we believe the company will be able to exchange the debts for a further maturity. Our belief in based on the revamped strategy of the management to shift to oil. As seen recently, Ultra Petroleum, a natural gas E&P company, is facing challenges with its debt exchange offer. The reason for lack of interest is lack of Oil in the product mix and weak natural gas prices.

Quality of Product/Service

The two most important assets for XXX are the high-margin oil basins of Eagle Ford (including WH) and Anton. The WH acquisition will help in margin enhancement, FCF generation, and reduction of LT Net/EBITDA to 2x. It adds significant premier Eagle Ford basin assets where XXX already had assets. The geology is well understood by the management and all the leanings of the basin wells are directly transferrable to the large underdeveloped WH position (80%-85%), while also providing access to premium Gulf coast markets. The company has already achieved $500 thousand per well savings with more than $1.0 million on individual wells. The Anton basin averaged 39 mboe/d in April 2019 (with 46% oil) and projects a 100% YoY oil growth in 2019. The company expects EBITDAX/boe in the Anton basin to increase by 60% YoY to $20.5 in 2019 (with 47% oil mix). The company also has the second lowest F&D cost/boe amongst its peer group, which further retaliates the high quality of the assets.

The Marcellus asset is projected to generate the maximum FCF of ~$400.0 million with longer laterals driving down F&D costs and delivering strong recovery per foot. Appropriate spacing, enhanced completions and longer laterals continue to be game changers in the Marcellus. The company expects 55% of the 2019 program will have >8,000 lateral length.

CapEx Requirements of the Business

OIL's exploration, development and acquisition activities require substantial capital expenditures. The company intends to fund capital expenditures through cash flows from operations, and to the extent that is not sufficient, borrowings under revolving credit facilities. The company's ability to generate operating cash flow is subject to a number of risks and variables, such as the level of production from existing wells, prices of oil, natural gas and NGL, and success in developing and producing new reserves. OIL's forecasted capital expenditures for 2019, inclusive of Brazos Valley and capitalized interest, are $2.1 - $2.3 billion compared to the 2018 capital spending level of $2.4 billion.

TresVista Insight: The company has the second lowest F&D per boe cost among its peers and it well positioned to take advantage of the massive underdeveloped area of the WH assets. The company has even redeployed the CapEx from its Mid-Con and Marcellus areas to the Anton basin where it has begun one new rig (increasing from 5 to 6). Given the continued, improved well performance and the commitment to a disciplined CapEx program, the company plans to drop a rig in the Marcellus in June of 2019. The management expects 80% of their drilling and completion activity will be focused on the high-margin oil assets in the Eagle Ford, while they continue to generate free cash flow from the Marcellus and Haynesville positions. We believe that the company will keep on spending ~$2.4 billion in CapEx annually for the next 2-3 years, due to the large undeveloped areas in the WH asset and the Anton basin, and the company's desire to increase the oil contribution in the product mix by 5-7% each year. As of end of 2018 (without taking into account the WH assets which has a ~80% undeveloped acreage out of a total of ~420,000 acres), the company had 87.9 mmbbl of oil in proved undeveloped reserves.

COMPANY MANAGEMENT

Current Management

The current management is led by the CEO R.D.L who also serves as a Director of OIL since June 2013. Mr. L is a petroleum engineer with 25 years of experience in the upstream Exploration and Production industry who has served in increasingly senior leadership roles at AAA, and we believe is majorly responsible for turning around the debt problems of the company, by shifting its focus towards oil and initiating various cost optimization efforts. Mr. L served as Senior Vice President of International and Deepwater Operations at AAA Petroleum Corporation and as a member of AAA Executive Committee from July 2012 to June 2013. Prior to that time, he served as AAA Vice President of International Operations from December 2011 to July 2012, Vice President of Operations for the Southern and Appalachia Region from March 2009 to July 2012 and Vice President of Corporate Planning from August 2008 to March 2009. Mr. L began his career with KMG Corporation in 1988 and joined AAA following its acquisition of KMG in August 2006.

Mr. DJ. Dell was appointed the Executive Vice President and Chief Financial Officer in November 2010. Prior to that time, he served as Vice President – Finance and Chief Financial Officer of OIL's wholly owned midstream subsidiary OIL Midstream Development, L.P. from August 2008 to November 2010.

Mr. FJ. Patterson was appointed Executive Vice President – Exploration and Production in August 2016, before that serving as Executive Vice President – Exploration and Northern Division since April 2016 and Executive Vice President – Exploration, Technology & Land from the time he joined OIL in May 2015. Before coming to OIL, Mr. Patterson served in various roles at AAA Petroleum Corporation from 2006 to 2015, most recently as Senior Vice President – International Exploration. Prior to that, he was Vice President – Deepwater Exploration at KMG and Manager – Geology at SSS E&P Energy.

TresVista Insight: All the leadership positions in the company, except the CFO, were replaced by the current management after a few activist investors pushed out the then-CEO Mr. AM Clen. The current management has performed well by taking strategic decisions which suit the company in the long-run, and making acquisitions in-line with the strategic focus.

Capital Allocation (M&A, buybacks, expansion)

- In Feb 2019, acquired WH Resource Development Corp, majority owned by NGP Energy Capital Management LLC, for $2.4 billion in cash and stock. Under the terms of the transaction, shareholders of WH elected to receive either 5.989 OIL common stock, or a combination of $3 in cash and 5.336 OIL common stock for each WH share sought. The transaction would also include an assumption of WH Resource Development Corp's net debt accounts amounting to $930 million. The cash portion of the transaction was funded through OIL's existing revolving credit facility
- In 2018, retired secured term loan due 2021 and significantly extended debt maturity profile by issuing at par $850 million of 7.00% Senior Notes due 2024 and $400 million of 7.50% Senior Notes due 2026 for net proceeds of $1.2 billion

- In 2018, repurchased XXX Utica, LLC investors' overriding royalty interests (ORRI) for $199 million
- In 2017, exchanged approximately 10 million shares of common stock for approximately $100 million of liquidation value of preferred stock
- In 2014, Corp acquired the southern Anton Basin assets of RKI Exploration & Production LLC for $450 million in cash, via an asset swap transaction. Concurrently, RKI Exploration also acquired OIL Energy's assets in the northern portion of the Anton Basin. The cash payment was financed from existing cash reserves

History with PE firms

XXX has a high proportion of investors as PE investors, including NGP (19% ownership) and Carlyle group (10.6% ownership). This proportion is significantly higher than other companies in the industry.

In October 2018, OIL and WH announced that OIL has entered into a definitive agreement to acquire WH, an oil and gas company with operations in the Eagle Ford Shale and Austin Chalk formations in southeast Texas, in a transaction valued at approximately $3.977 billion. The transaction was unanimously approved by the Board of Directors of each company. Investment funds managed by NGP Energy Capital Management, LLC, collectively WH's largest shareholder, entered into a voting and support agreement in support of the transaction.

TREND ANALYSIS

Debt Ratios

	2018	2017	2016	2015	2014
DEBT/EQUITY	3.69	2.54	0.75	0.29	0.48
DEBT/ENTERPRISE VALUE	0.69	0.65	0.62	0.68	0.44
TOTAL DEBT (IN MILLIONS $)	7722	9973	10441	10721	11565

Credit Ratios

	2018	2017	2016	2015	2014
DEBT/EBITDA	2.80	4.66	9.58	8.82	2.10
DEBT/EBIT	4.79	8.70	NM	NM	4.47
INTEREST COVERAGE	2.48	1.85	NM	NM	3.20
ASSET COVERAGE	1.48	1.54	2.08	2.07	2.03

Income Data

	2018	2017	2016	2015	2014
EBITDA (MILLIONS USD)	2756	2141	1090	1215	5503
EBITDA MARGIN (%)	26.8	23.6	12.5	10.3	24.9
OPERATING INCOME (MILLIONS USD)	1611	1146	-17	-1014	2588
EBIT MARGIN (%)	15.7	12.6	-0.2	-8.6	11.7

Cash Flow Metrics

IN MILLIONS USD	2018	2017	2016	2015	2014
TOTAL CASH FLOW	-1	-877	57	-3335	3234
CASH FLOW FROM OPERATIONS (CFO)	2000	745	-204	726	4634
TOTAL CASH/CASH EQ. ON HAND	NM	NM	0.06	NM	0.78
FREE CASH FLOW	-267	-1747	-2324	-3045	-1984

Yield Data

	2018	2017	2016	2015	2014
OPTION ADJUSTED SPREAD (BPS)	644	522	616	843	2751
YIELD TO MATURITY (BPS)	893	743	828	1053	2956
SPREAD PER TURN LEVERAGE	3.19	1.60	0.86	1.19	14.07

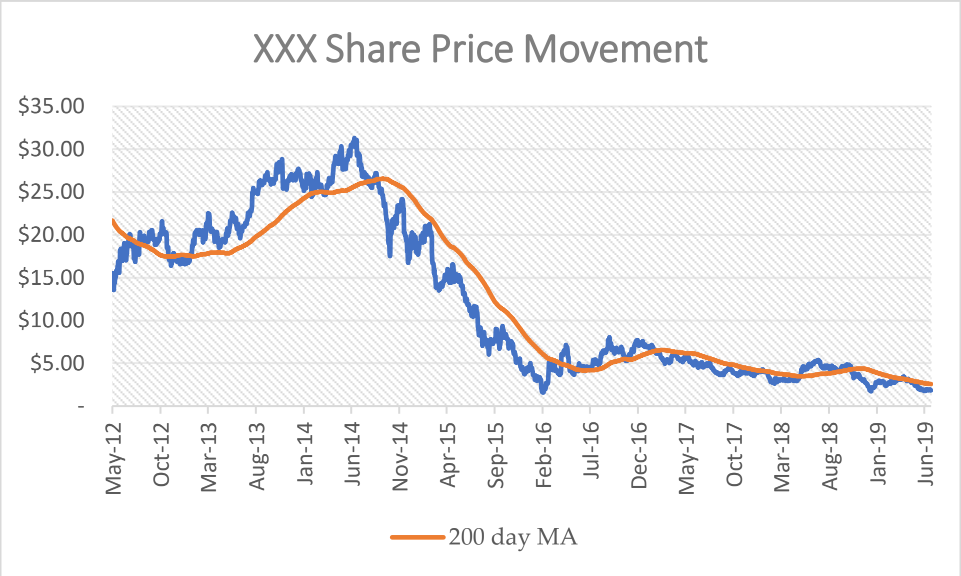
Equity Data

	2018	2017	2016	2015	2014
STOCK PRICE ($/SHARE)	2.10	3.96	7.02	4.50	19.57
MARKET CAP (MILLIONS USD)	1919	3598	6229	2993	13016
SHARES OUTSTANDING (MILLIONS)	913.72	908.69	887.39	665.07	665.11

FINANCIAL STATUS (QUANTITATIVE METRICS)

Stock performance history (based on 4/7/19 close at 1.84):

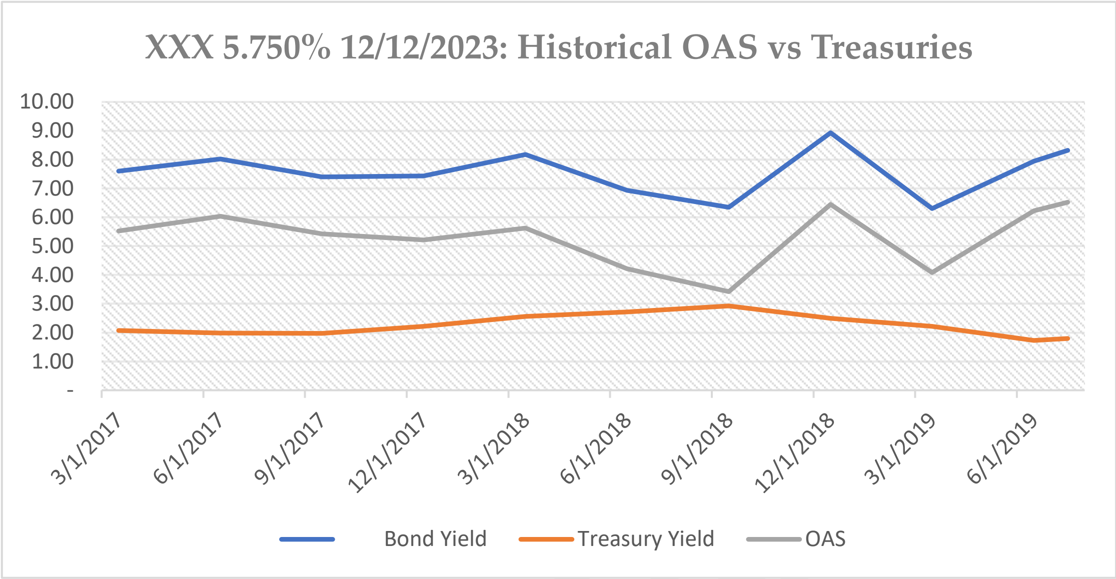
	PRICE	RETURN (%)
LAST 30 DAYS	2.01	-8.5
QUARTER TO DATE	1.95	-5.6
YEAR TO DATE (SINCE 12/31/17)	2.10	-12.4
LAST THREE YEARS	4.59	-59.9
LAST FIVE YEARS	29.50	-93.8



Bond to stock ratio (5.750% 3/15/2023):

CURRENT (7/3/19):	50.19 (BOND PRICE: 92.36, STOCK PRICE: 1.84)
HISTORICAL CONTEXT:	• 7/28/17: 18.35 (BOND PRICE: 92.85, STOCK PRICE: 5.06) • 4/12/18: 29.16 (BOND PRICE: 91.86, STOCK PRICE: 3.15)

Current OAS vs. Historic OAS



FINANCIAL STATUS (QUALITATIVE INFORMATION)

Is the company deleveraging? To what degree?

Yes. After years of aggressive debt fueled expansion, the management has made debt reduction its foremost priority. The company aims to achieve 2.0x Net Debt/EBITDAX, from its current position of ~3.2x, and around USD 9.5bn in total debt. The high leverage is due to the acquisition of WH. The proposed reduction in debt is to be carried out with a combination of smaller asset sales, and EBITDAX margin expansions.

The company is shifting its focus from Gas to Oil production. The company averaged oil production of approximately 109,000 barrels per day in Q1 2019 representing 18% in absolute growth compared to last year, and 22% of its total production mix vs. 19% in Q4 2018. It aims to deliver the 32% absolute oil growth as per February 2019 guidance, ultimately reaching a year-end oil production mix of approximately 26% of total net production.

In 2018 the company divested lower-margin Utica and Mid-Continent assets which helped with overall debt reduction of $1.8 billion as of December 31, 2018, including the elimination of $2.6 billion in secured debt. The debt was reduced to $7.7 billion as of Q4 2018, but increased in Q1 2019 due to the acquisition of WH. The company has had a history of selling smaller assets to retire debt maturities and continues to look for further debt reduction by smaller assets sale. We believe that a majority of the assets sold would come out of the Gas and NGL portfolio.

TresVista Insight: While the shift of focus to the high-margin oil and better than expected operational synergies are positive, we believe the company can achieve FCF>0 in 2020. Most of the smaller asset sale depends on the price the management gets, and our belief is that under the current market conditions, getting a favorable price will be difficult than expected. However, the management's focus now is to concentrate on FCF generation to pay down and service the debt while also improving the leverage ratio, rather than depending on large asset sales to paydown the debt. The enhanced margins in oil growth from the WH assets will also have an immediate impact on the financials and balance sheet. The management expects the incremental EBITDA created by this transaction will improve the debt to EBITDA ratio, accelerating our de-leveraging efforts by approximately 40% over the next two years.

Why did bond spreads widen? Is it a temporary or secular situation?

In Q3 2018, the company announced that it will acquire the Eagle Ford basin assets of WH. The news was not received well as there was uncertainty over the leverage and this caused a dramatic sale of bonds which caused the spread to widen. In Q2 2019, due to the downfall of Oil and Gas price yield on the bond started going up. Spread widening has been observed in the past recent months with the spread over treasuries coming to 622 bps in June 2019. Presently, the bond price is showing a downtrend due to which yield increased at single digit between 7-9%.

TresVista Insight: High capex requirements and uncertainty of the energy price will continue to add risk and hence, the long-term outlook of the company remains uncertain. The management has also suggested that asset sales will no longer be a primary financial strategy, with the company looking at utilizing FCF (which is currently negative) to service the debts. We believe that the spread widen is temporary as the leverage will decline significantly which will result in a compression of the OAS spread.

Is this a good company with a bad balance sheet?

Yes. Historically, XXX has been generating negative FCF, selling assets to service its debt. However, due to the recent strategic shift towards generating a higher proportion of revenues from oil production, coupled with its efforts towards cost optimization, we have reason to believe that it will consistently generate positive free cash flow in the foreseeable future. The management is targeting a Net Debt/EBITDAX multiple of 2x, which, being a little above the comfort zone of the industry, seems to be an achievable target if its cash flow projections come to fruition.

TresVista Insight: The company has cleaned its balance sheet after the new management was in place. Since 2013, they have cut $12.0 billion in long-term debt and liabilities, erased $10.0 billion in midstream and downstream commitments and removed $1.0 billion in annual cash costs. The management has also stopped using large asset sale to service debt and has turned attention to the high margin oil assets which will accelerate the management's effort of reducing the leverage.

Credit Rating History

DATE	RATING	AGENCY
6/28/19	B+	S&P
9/20/18	B-	S&P
6/6/18	CCC+	S&P
9/30/15	CC	S&P
11/25/15	BB-	S&P
6/12/15	BB+	S&P

CATALYSTS

Business

OIL is shifting its focus from predominant gas production to oil play, which can be implied from the fact that 75%-80% of its CapEx was directed towards oil producing assets, and a similar level of investment is expected in 2020. Further, it has displayed an intent for inorganic growth in oil plays, visible through the its latest acquisition of WH. Efficient allocation of capital can prove to be instrumental in unlocking high growth in oil production, due to the presence of un-tapped resources such as the Niobara field of Anton basin, which contains some of the best performing wells of the basin.

The margin of the high oil content is meaningful with the oil assets earning approximately $30 per BOE EBITDAX margin lead by the Brazos Valley reaching over $37 per BOE due to its low cost structure and access to Gulf Coast premium pricing. The company has transitioned all four rigs of the Eagle Ford to oil window, majority of which were working in the gas window prior to the WH acquisition. The company expects higher oil volumes beginning in or around Q3 2019. Brazos Valley is expected to be positive FCF at asset operating level by the end of the year as the company has already achieved capital cost improvements of more than USD 1.0mn per well in several wells in Brazos Valley with improved drilling and completion techniques as visible in the new records of drilling rate of penetration and number of fracture stimulation stages completed in a day.

On the production side, efforts towards redesigning completions (reducing fluids and maintaining sand volumes), and better choke management have produced cost efficiencies. The management sees more opportunity available on the base optimization side. XXX has also initiated construction of their first central production facility which will continue to drive cost down and promote efficiencies a majority of the 2019 drilling program will be near the new CPF which is also the highest oil cut portion of the Turner play. Cost cutting and optimization efforts in oil and gas fields coupled with higher capital allocation to oil assets will help improve the efficiency of the units in the form of lower GP&T costs, improved drilling rate of penetration, improved EBITDAX margins and higher overall profitability resulting from a larger share of revenues coming from oil. Further effective M&A activity can increase the company's footprint in the global oil markets.

Financials

The company's production stream for Q1 2019 was 22% oil vs. 19% in 2018, and 17% in Q1 2018. Increased Oil as a percentage of total production and lower expenses has resulted in the highest EBITDAX margin per BOE in four years at $15.5 EBITDAX/boe (oil averaged USD 30.0, led by Brazos Valley reaching over USD 37.0). Its efforts towards cost optimization resulted in Cash Operating Cost structure improvement by USD 81.0mn vs. Q1 2018 driven by improvement in GP&T expenses amounting to USD 6.29 per barrel equivalent, which were around USD 1.0 per barrel equivalent lower than the 2018 average, driven by asset sales in 2018 and midstream and downstream contract restructuring. Going forward, the management expects ~USD 250.0mn improvement in GP&T cost in 2019 vs. 2018, and GP&T expenses of New oil gathering systems in in Anton basin expected to lower oil gathering expense by ~75%.

On the Liquidity front, the borrowing capacity of the company is USD 2.1bn under the USD 3.0bn credit facility and USD 565.0mn under USD 1.3bn Brazos Valley credit facility.

The company has a history of hedging the downside of energy prices. 70% and 80% of remaining 2019 Oil and Gas production, respectively, are hedged with downside protection at average prices of $58.75 per barrel and $2.83 mcf, respectively. For 2020, 250.0 bcf Gas and 13.2mn barrels of oil hedged at USD 2.75 per mcf and USD 60.10 per barrel, respectively.

TresVista Insight: Improvements in margins can be attributed to two factors: Production shift towards oil, and consistent cost optimization efforts in the Oil and Gas operations. The company expects further operating efficiencies and margin expansion going forward as it plans to exit the year at 26% oil-to-gas mix.

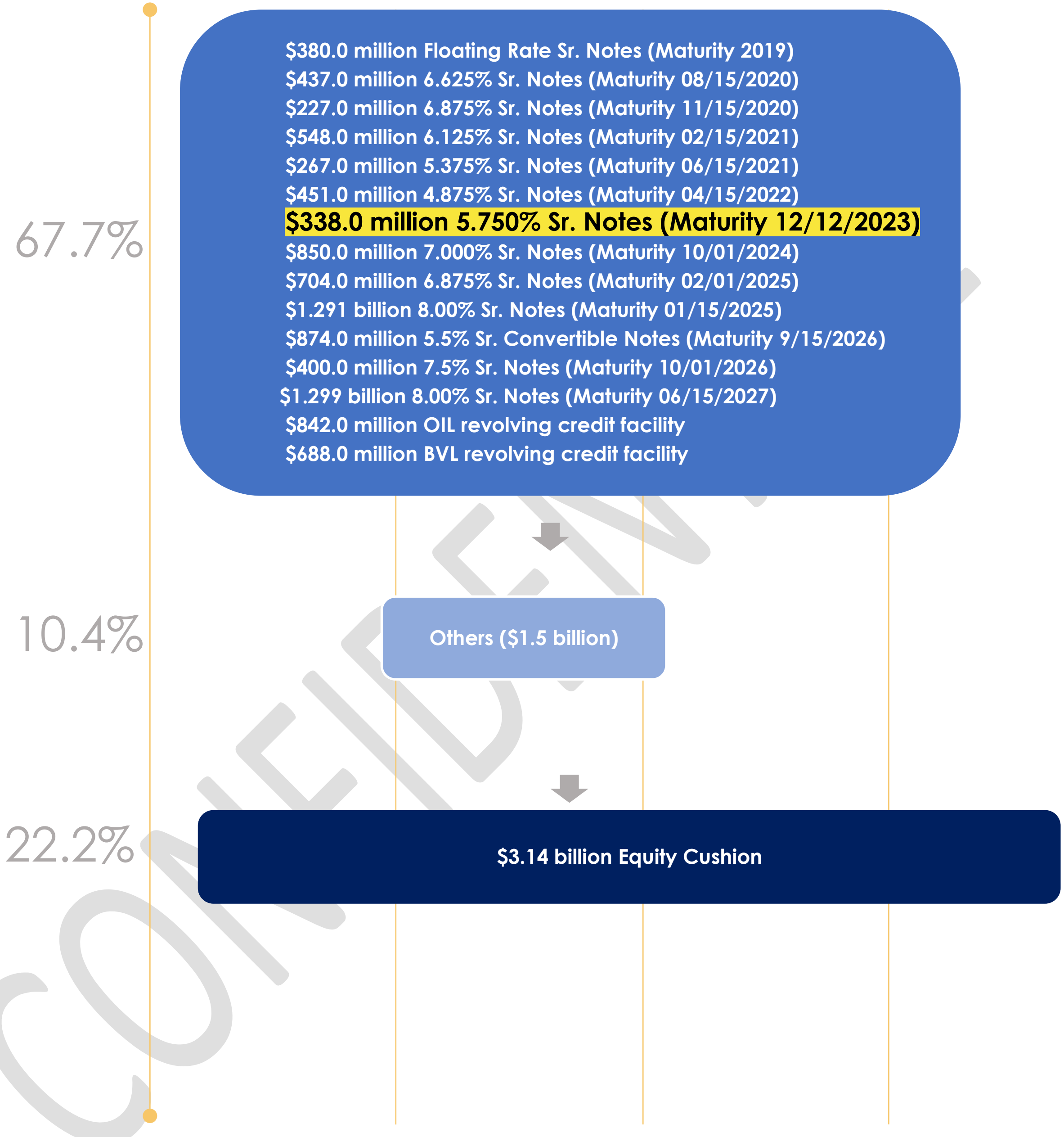
Asset (PV-10) Coverage

- PV-10 = $9.527 billion
- Total debt = $9.547 billion; PV-10 coverage = 1.0x
- Property, plant, and equipment = $14.939 billion
- Cash = $8 million, current assets = $1365 million

RISKS TO THE BUSINESS

- Oil, natural gas and NGL prices fluctuate widely, and lower prices for an extended period of time are likely to have a material adverse effect on the business
- Declines in commodity prices could result in write downs of the carrying value of oil and natural gas properties
- Significant capital expenditures are required to replace our reserves and conduct the business. If the company is not able to replace reserves, it may not be able to sustain production
- The ultimate outcome of pending legal and governmental proceedings is uncertain, and there are significant costs associated with these matters

VISUAL REPRESENTATION OF CAPITAL STRUCTURE



Please note that the floating rate notes of $380.0 million was paid after March 31, 2019 in full upon maturity.

TresVista Insight: All the debt under the debt exchange program of April 2019 has been tendered fully for an exchange of 8.0% 2026 maturity. Hence the maturity wall before 2023 has reduced substantially and the company will have enough liquidity by the time to cover the debt redemption.

GLOSSARY

Asset (PV-10) Coverage: A solvency measure intended to describe a company's ability to cover debt obligations with tangible assets on the balance sheet; calculated by dividing Tangible Assets (Total Assets – Intangible Assets) by Total Debt

Cost per BOE: Applicable only to Oil Exploration and Production (E&P) companies. This is a measure of the amount of money required to produce one barrel of oil (or oil equivalent). Calculated by dividing all costs involved in production (exploration costs, ad valorem taxes, SG&A, marketing, and other expenses) by volume of oil produced.

Daily Production (Mboe/d): Applicable only to E&P companies. This is a measure of daily oil production, describing how many 1000s of barrels of oil (or equivalent) are produced per day.

Debt/Equity: A leverage ratio designed to describe the amount of a company's funding that comes from debt or equity. Calculated by dividing Total Debt by Market Capitalization (see below).

Debt/EV Ratio: A leverage ratio that describes the level of a company's indebtedness compared to the total value of the enterprise. A ratio of one indicates that the company's funding is entirely from debt capital.

EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization. A measure of a company's operating performance, which allows the investor to analyze the earning power of an enterprise without having to consider financing or accounting decisions or tax environments.

Interest Coverage Ratio: A coverage ratio intended to describe the ability of a company to service its debt payments using its earnings capability. Calculated by dividing EBITDA by Yearly Interest Expense.

Market Cap: Market Capitalization. Calculated by multiplying stock price by number of outstanding shares.

Oil Price at which EBITDA is Breakeven: Industry-specific for E&P companies. This is the market price of oil at which the company's EBITDA equals zero. This is a useful metric for comparing cost structures of competitor E&P entities.

OAS Spread: Option-adjusted spread. This is a measurement of the yield difference between a given fixed-income security and a treasury bond of the corresponding maturity, also taking into account the possibility that the issuer may recall the bond before maturity. A measure that allows direct comparison of credit risk between securities.

Payout Ratio: Percentage a company's net income it pays out to shareholders in the form of dividends.

PV-10: Applicable only to E&P companies. PV10 is the present value of estimated oil and gas reserves, net of associated expenses, discounted at an annual discount rate of 10%. This is an industry-standard measurement of the amount of energy reserves controlled by a given company.

RSI: Relative Strength Index. A technical indicator used to measure momentum. A reading of 0-20 suggests an oversold condition; a reading of 80-100 suggests a security is overbought.

TTM: Shorthand for "Trailing Twelve Months".

YTM: Shorthand for "Yield to Maturity". YTM is the total return expected if an investor holds a bond to maturity, with the assumption that all coupon and interest payments are made on schedule.